

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

CADILLAC, MICHIGAN

JUNE 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---|--------------------------------|---|--------------------------|
| Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name South Branch Township | County Wexford |
| Audit Date 6/30/04 | Opinion Date 1/13/05 | Date Accountant Report Submitted to State: 2/2/05 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | ✓ | | |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|---|-------------------------|-----------------------|---------------------|
| Certified Public Accountant (Firm Name) Baird, Cotter & Bishop, P.C. | | | |
| Street Address 134 W. Harris Street | City Cadillac | State MI | ZIP 49601 |
| Accountant Signature  | | Date 2/2/05 | |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

JUNE 30, 2004

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CADILLAC, MICHIGAN

JUNE 30, 2004

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January 13, 2005

INDEPENDENT AUDITORS' REPORT

To the Township Board
South Branch Township
Wexford County
Cadillac, Michigan

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Branch Township, Wexford County, Cadillac, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of South Branch Township, Wexford County, Cadillac, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the Township has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as of July 1, 2003.

The management's discussion and analysis on pages iii through ix and budgetary comparison information on page 20 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Branch Township, Wexford County, Cadillac, Michigan's basic financial statements. The combining and individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

South Branch Township, a general law township located in Wexford County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the South Branch Township board's discussion and analysis of the financial results for the fiscal year ended June 30, 2004. In future years, comparative information will be provided.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$137,030. Of this amount, \$57,022 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$72,547 a decrease of \$4,021 in comparison with the prior year. About 79.67% is available for spending at the Township's discretion.
- ◆ The Township's total debt decreased by \$3,768 during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2004 for South Branch Township. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities)

Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years' financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long-Term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township does not maintain any proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township's financial position over time. The Net Assets of the Township are \$130,030 at June 30, 2004, meaning the Township's assets were greater than its liabilities by this amount. Because of GASB Statement Number 34, this is the first year that this information is presented; therefore, only one year of data is shown. A useful comparative analysis will be presented in future years when the information is available.

**South Branch Township
Net Assets as of June 30, 2004**

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Current Assets | \$ 82,688 |
| Non Current Assets | |
| Capital Assets | 184,956 |
| Less: Accumulated Depreciation | <u>(98,247)</u> |
| Total Non Current Assets | <u>86,709</u> |
| Total Assets | \$ <u>169,397</u> |
| Liabilities | |
| Current Liabilities | \$ 14,851 |
| Long-Term Liabilities | <u>17,516</u> |
| Total Liabilities | \$ <u>32,367</u> |
| Net Assets | |
| Invested in Capital Assets, Net Related Debt | 65,261 |
| Restricted for Specific Purposes | 14,747 |
| Unrestricted | <u>57,022</u> |
| Total Net Assets | <u>130,030</u> |
| Total Liabilities and Net Assets | \$ <u>169,397</u> |

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others) less any related debt that is outstanding that the Township used to acquire the asset. The Township has \$57,022 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental activities.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

The total net assets of the Township increased by \$40,169 or 41.47% in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

**South Branch Township
Change in Net Assets
for the Fiscal Year Ended June 30, 2004**

| | <u>Governmental Activities</u> |
|------------------------------------|------------------------------------|
| <u>Revenues</u> | |
| Program Revenues | |
| Charges for Services | \$ 8,021 |
| Operating Grants and Contributions | 2,470 |
| Capital Grants and Contributions | 51,951 |
| General Revenues | |
| Property Taxes and Assessments | 47,630 |
| State Shared Revenue | 26,117 |
| Unrestricted Investment Earnings | 629 |
| Other | 3,763 |
| Total Revenues | \$ <u>140,581</u> |
| <u>Expenses</u> | |
| Legislative | \$ 14,036 |
| General Government | 31,762 |
| Public Safety | 45,868 |
| Public Works | 1,480 |
| Other Functions | 6,305 |
| Debt Service | 961 |
| Total Expenses | \$ <u>100,412</u> |
| Changes in Net Assets | 40,169 |
| NET ASSETS – Beginning of Year | <u>96,861</u> |
| NET ASSETS – End of Year | \$ <u>137,030</u> |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

Governmental Activities

During the fiscal year ended June 30, 2004, the Township's net assts increased by \$40,169 or 41.17 % in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of South Branch Township comes from property taxes. The Township levied a millage for fire protection, in addition to the operating millages, this fiscal year. The Township levied 0.9062 mills for operating purposes, and 1.9535 mills for fire protection.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax and motor fuel and weight taxes. In 2004, the amount of state shared revenue received by the Township trended downward, representing declining sales tax collections and discretionary reductions by the State in revenue sharing payments.

Capital grants represent grant dollars, whether federal, state, or local, that the Township has secured in order to assist in capital asset construction and infrastructure improvement within the Township. The grant received during the current fiscal year assisted the Township in acquiring additional fire equipment to assist in more effective fire protection.

The Township's governmental activities expenses are dominated by public safety expenses that total 45.68% of total expenses. The Township spent \$45,868 in fiscal year 2004 on public safety expenses. General governmental represented the next largest expense at \$31,762 followed by legislative at \$14,036. These represent 31.63% and 13.98% respectively. Expenses for salaries, supplies, less expensive equipment and insurance, represent a large portion of the public safety expenses at \$27,524. Depreciation expense added another \$5,535.

Business-Type Activities

The Township does not maintain any Business-Type Activities.

Financial Analysis of the Government's Funds

Governmental Activities The focus of South Branch Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

At the end of the current fiscal year, South Branch Township's governmental funds reported combined ending fund balances of \$72,547. Approximately 79.67% of this total amount (\$57,800) constitutes unreserved fund balance. The remainder of the fund balance is reserved for specific purposes and is therefore not available for new appropriation. For example, the fund balance that is reserved for fire protection must be used for expenditures that relate to fire protection.

General Fund – The General Fund decreased its fund balance by \$1,797 which brings the fund balance to \$60,118. Of the General Fund's fund balance, \$57,800 is unreserved while \$2,318 is reserved for right-of-way maintenance. Various General Fund functions ended the year with expenditures below budgeted amounts. The differentials were funded by greater than anticipated revenues and available fund balance. Property tax revenues increased by 3.06% or \$535. State shared revenues decreased by \$1,535 from the prior year. This represents a 6.06% reduction which resulted from the State Actions in response to the economic slowdown experienced throughout the State of Michigan.

Fire Fund – The Fire Fund decreased its fund balance by \$5,191 which brings the fund balance to \$11,948. This balance is reserved and must be used for fire protection.

The Township levied a fire millage on the 2003 tax roll. This resulted in \$26,645 in tax related revenues during the current fiscal year. The Fire Fund also received a \$49,851 grant from FEMA and a \$2,100 grant from the Michigan Department of Natural Resources.

Municipal Street Fund – The Municipal Street Fund increased its fund balance by \$2,967 which brings the fund balance to \$481. The balance is reserved and must be used for road improvements.

Liquor Law Enforcement Fund – The Liquor Law Enforcement Fund's fund balance remained the same at zero. The Liquor license fees received for the State do not cover the entire expenditures from the Wexford County Sheriff's Department, therefore, only the expenditures paid for by the revenue of this fund are recorded here. The balance is recorded in the General Fund.

Proprietary Fund The Township does not maintain any proprietary funds.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental activities as of June 30, 2004 amounted to \$86,709 net of accumulated depreciation. The total net increase in the Township's investment in capital assets for the current fiscal year was 86.78%.

Capital assets summarized below include any items purchased with a cost greater than \$300 individually (for purchases after June 30, 2003) and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

**South Branch Township
Capital Assets as of June 30, 2004**

| | | Governmental Activities |
|-----------------------------------|----|------------------------------------|
| Land | \$ | 400 |
| Buildings | | 41,100 |
| Equipment, Furniture and Fixtures | | 143,456 |
| | | <hr/> 184,956 |
| Less Accumulated Depreciation | | 98,247 |
| | | <hr/> |
| Net Capital Assets | \$ | <hr/> 86,709 <hr/> |

Major capital asset events during the current fiscal year included the following:

- ◆ Ten Viking SCBA'S to enhance the Township's fire protection cost \$35,000.
- ◆ Ten spare carbon tanks also to enhance the Township's fire protection cost \$6,400.
- ◆ Five medium digital air switch masks cost \$2,925.

Long-Term Debt At the end of the current fiscal year, the Township had total installment debt outstanding of \$21,448. The entire balance of this debt is backed by the full faith and credit of the government. The lender also has a security interest in the tanker purchased with the note proceeds. Additional information on the Township's long-term debt can be found in the notes to the financial statements.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means further reductions in state-shared revenues. State shared revenues are expected to decrease by at least 1.091% in the 2004-05 fiscal year. The Township's millage rate was reduced again by the Headlee Amendment rollback to 0.8870 mills for general operating purposes.

A fire millage was once again levied for the 2004 tax roll. The mills to be levied for the 2004 tax roll for fire protection is 2.0000 for fire protection operations and 1.000 for fire protections equipment.

These factors were considered in preparing the Township's budgets for the 2004-05 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact South Branch Township at 10510 W. M-55, Cadillac, MI 49601.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF NET ASSETS
JUNE 30, 2004

| | <u>GOVERNMENTAL ACTIVITIES</u> |
|-----------------------------------|------------------------------------|
| <u>ASSETS</u> | |
| Cash | \$ 73,750 |
| Receivables | |
| Intergovernmental | 8,025 |
| Agency Funds | <u>913</u> |
| Total Current Assets | <u>\$ 82,688</u> |
| <u>CAPITAL ASSETS</u> | |
| Land | \$ 400 |
| Buildings | 41,100 |
| Machinery and Equipment | <u>143,456</u> |
| | \$ 184,956 |
| Less Accumulated Depreciation | <u>98,247</u> |
| Net Capital Assets | <u>\$ 86,709</u> |
| TOTAL ASSETS | <u><u>\$ 169,397</u></u> |
| <u>LIABILITIES</u> | |
| <u>CURRENT LIABILITIES</u> | |
| Accounts Payable | \$ 1,388 |
| Payroll Deductions Payable | 8,753 |
| Accrued Interest Payable | 778 |
| Current Portion of Long-Term Debt | <u>3,932</u> |
| Total Current Liabilities | <u>\$ 14,851</u> |
| <u>LONG-TERM LIABILITIES</u> | |
| Notes Payable | \$ 21,448 |
| Less: Current Portion | <u>(3,932)</u> |
| Total Long-Term Liabilities | <u>\$ 17,516</u> |
| TOTAL LIABILITIES | <u>\$ 32,367</u> |

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF NET ASSETS
JUNE 30, 2004

EQUITY

Net Assets:

| | |
|---|---------------|
| Invested in Capital Assets, Net of Related Debt | \$ 65,261 |
| Restricted for Right-of-Way Maintenance | 2,318 |
| Restricted for Fire Protection | 11,948 |
| Restricted for Road Improvements | 481 |
| Unrestricted | <u>57,022</u> |

| | |
|------------------|-------------------|
| TOTAL NET ASSETS | <u>\$ 137,030</u> |
|------------------|-------------------|

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

| FUNCTIONS/PROGRAMS PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES | PROGRAM REVENUES | | | | NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS |
|---|------------------|-------------------------|--|--|--|
| | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | TOTAL GOVERNMENTAL ACTIVITIES |
| Legislative | \$ 14,036 | \$ 0 | \$ 0 | \$ 0 | (14,036) |
| General Government | 31,762 | 8,021 | 987 | 0 | (22,754) |
| Public Safety | 45,868 | 0 | 1,483 | 51,951 | 7,566 |
| Public Works | 1,480 | 0 | 0 | 0 | (1,480) |
| Other Functions | 6,305 | 0 | 0 | 0 | (6,305) |
| Debt Service | 961 | 0 | 0 | 0 | (961) |
| Total | \$ 100,412 | \$ 8,021 | \$ 2,470 | \$ 51,951 | \$ (37,970) |
| <u>GENERAL REVENUES</u> | | | | | |
| Property Tax | | | | | \$ 47,630 |
| State Shared Revenue | | | | | 26,117 |
| Unrestricted Investment Earnings | | | | | 629 |
| Other | | | | | 3,763 |
| Total General Revenues | | | | | \$ 78,139 |
| Change in Net Assets | | | | | \$ 40,169 |
| NET ASSETS - Beginning of Year | | | | | 96,861 |
| NET ASSETS - End of Year | | | | | \$ 137,030 |

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
JUNE 30, 2004

| | GENERAL FUND | FIRE FUND | MUNICIPAL STREET FUND | LIQUOR LAW ENFORCEMENT FUND | TOTALS |
|----------------------------|------------------|------------------|-----------------------------|--------------------------------------|------------------|
| <u>ASSETS</u> | | | | | |
| Cash | \$ 58,464 | \$ 9,352 | \$ 5,934 | \$ 0 | \$ 73,750 |
| Due from Other Funds | 7,921 | 0 | 0 | 0 | 7,921 |
| Due from Other Governments | 3,874 | 4,151 | 0 | 0 | 8,025 |
| TOTAL ASSETS | <u>\$ 70,259</u> | <u>\$ 13,503</u> | <u>\$ 5,934</u> | <u>\$ 0</u> | <u>\$ 89,696</u> |

LIABILITIES AND FUND BALANCE

LIABILITIES

| | | | | | |
|----------------------------|------------------|-----------------|-----------------|-------------|------------------|
| Accounts Payable | \$ 1,388 | \$ 0 | \$ 0 | \$ 0 | \$ 1,388 |
| Due to Other Funds | 0 | 1,555 | 5,453 | 0 | 7,008 |
| Payroll Deductions Payable | 8,753 | 0 | 0 | 0 | 8,753 |
| Total Liabilities | <u>\$ 10,141</u> | <u>\$ 1,555</u> | <u>\$ 5,453</u> | <u>\$ 0</u> | <u>\$ 17,149</u> |

FUND BALANCE

| | | | | | |
|---------------------------------------|------------------|------------------|-----------------|-------------|------------------|
| Reserved for: | | | | | |
| Right-of-Way Maintenance | \$ 2,318 | \$ 0 | \$ 0 | \$ 0 | \$ 2,318 |
| Fire Protection | 0 | 11,948 | 0 | 0 | 11,948 |
| Road Improvements | 0 | 0 | 481 | 0 | 481 |
| Unreserved | | | | | |
| Undesignated | 57,800 | 0 | 0 | 0 | 57,800 |
| Total Fund Balance | <u>\$ 60,118</u> | <u>\$ 11,948</u> | <u>\$ 481</u> | <u>\$ 0</u> | <u>\$ 72,547</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 70,259</u> | <u>\$ 13,503</u> | <u>\$ 5,934</u> | <u>\$ 0</u> | <u>\$ 89,696</u> |

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003

| | | |
|---|----|--------|
| Total Fund Balance for Governmental Funds | \$ | 72,547 |
|---|----|--------|

Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

| | | | |
|--------------------------|----|-----------------|--------|
| Land | \$ | 400 | |
| Buildings | | 41,100 | |
| Equipment | | 143,456 | |
| Accumulated Depreciation | | <u>(98,247)</u> | 86,709 |

Long-term liabilities are not due and payable in the current period
and therefore are not reported in the funds.

| | | | |
|--------------------------|----|--------------|-----------------|
| Notes Payable | \$ | (21,448) | |
| Accrued Interest Payable | | <u>(778)</u> | <u>(22,226)</u> |

| | | |
|---------------------------------------|----|----------------|
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | \$ | <u>137,030</u> |
|---------------------------------------|----|----------------|

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2004

| | GENERAL FUND | FIRE FUND | MUNICIPAL STREET FUND | LIQUOR LAW ENFORCEMENT FUND | TOTALS |
|--|-----------------|--------------|-----------------------------|--------------------------------------|------------|
| <u>REVENUES</u> | | | | | |
| Taxes | \$ 18,018 | \$ 26,645 | \$ 2,967 | \$ 0 | \$ 47,630 |
| Federal Grants | 0 | 49,851 | 0 | 0 | 49,851 |
| State Grants | 26,117 | 2,100 | 0 | 1,483 | 29,700 |
| Contributions from Local Units | 987 | 0 | 0 | 0 | 987 |
| Charges for Services | 7,946 | 0 | 0 | 0 | 7,946 |
| Interest and Rents | 673 | 31 | 0 | 0 | 704 |
| Other Revenues | 1,763 | 2,000 | 0 | 0 | 3,763 |
| Total Revenues | \$ 55,504 | \$ 80,627 | \$ 2,967 | \$ 1,483 | \$ 140,581 |
| <u>EXPENDITURES</u> | | | | | |
| Legislative | \$ 14,036 | \$ 0 | \$ 0 | \$ 0 | \$ 14,036 |
| General Government | 33,257 | 0 | 0 | 0 | 33,257 |
| Public Safety | 2,223 | 80,952 | 0 | 1,483 | 84,658 |
| Public Works | 1,480 | 0 | 0 | 0 | 1,480 |
| Other Functions | 6,305 | 0 | 0 | 0 | 6,305 |
| Debt Service | 0 | 4,866 | 0 | 0 | 4,866 |
| Total Expenditures | \$ 57,301 | \$ 85,818 | \$ 0 | \$ 1,483 | \$ 144,602 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ (1,797) | \$ (5,191) | \$ 2,967 | \$ 0 | \$ (4,021) |
| <u>FUND BALANCE -</u> | | | | | |
| Beginning of Year (Deficit) | 61,915 | 17,139 | (2,486) | 0 | 76,568 |
| <u>FUND BALANCE -</u> | | | | | |
| End of Year | \$ 60,118 | \$ 11,948 | \$ 481 | \$ 0 | \$ 72,547 |

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2004

| | |
|---|------------|
| Net change in Fund Balance - Total Governmental Funds | \$ (4,021) |
|---|------------|

Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

| | |
|----------------------|---------|
| Depreciation Expense | (5,535) |
| Capital Outlay | 45,820 |

Accrued interest on notes payable is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid.

| | |
|--|-------|
| Accrued Interest Payable - Beginning of Year | 915 |
| Accrued Interest Payable - End of Year | (778) |

Repayments of principal on long-term debt is an expenditure in the governmental fund, but not in the statement of activities (where it is a reduction of liabilities).

| | |
|--------------|--------------|
| Note Payable | <u>3,768</u> |
|--------------|--------------|

| | |
|---|------------------|
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>\$ 40,169</u> |
|---|------------------|

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2004

| | <u>AGENCY FUNDS</u> |
|--|-------------------------|
| <u>ASSETS</u> | |
| Cash | \$ 913 |
| <u>LIABILITIES</u> | |
| Accounts Payable - South Branch Township | \$ 913 |

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

South Branch Township is a general law township located in Wexford County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

During fiscal year 2004, the Township adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

South Branch Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Fund* accounts for revenue sources that are legally restricted to expenditures for fire protection.

The *Municipal Street Fund* accounts for revenue sources that are legally restricted to expenditures for road improvements.

The *Liquor Law Enforcement Fund* accounts for revenue sources that are legally restricted to expenditures for liquor law enforcement.

Additionally South Branch Township reports the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

D. Assets, Liabilities and Equity

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of three months or less from date of acquisition.

(I) The Township Board has authorized the Township Treasurer to invest in the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository of a financial institution with a location within the State of Michigan.
- (c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in subdivision (a).
- (e) Bankers' acceptances of United States banks.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

- (f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- (g) Mutual funds registered under the Investment Company Act of 1940, Title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by the Township Treasurer. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share. (Recommendation--the above limitation is recommended, however, the Treasurer may also include mutual funds whose net asset value may fluctuate on a periodic basis by so stating in this area).
- (h) Investment pools organized under the Local Government Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- (i) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118.

2. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and 50% of Cadillac Area Public School's taxes are levied and due July 1, and become delinquent after September 14. County and the balance of school taxes are levied and due December 1, and become delinquent after February 14. Collections of school and county taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2003 taxable valuation of the South Branch Township totaled \$13,657,265, on which ad valorem taxes levied consisted of 0.9062 mills for the South Branch Township operating purposes, and 1.9535 mills for South Branch Township fire protection. These levies raised approximately \$12,375 for operating purposes and \$26,677 for fire protection. The Township also levied property taxes on a special street assessment which raised \$2,967 for the project.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$300 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

| <u>ASSETS</u> | <u>YEARS</u> |
|------------------------------|--------------|
| Buildings | 50 |
| Building improvements | 20 |
| Public domain infrastructure | 50 |
| Vehicles | 10 |
| Equipment | 5-10 |

South Branch Township qualifies as a phase 3 governmental unit in regards to the implementation of GASB 34. Phase 3 governmental units are not required to retroactively capitalize infrastructure. As a result, the Township will capitalize and depreciate infrastructure beginning July 1, 2003, in accordance with the Township's capitalization policy.

5. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures

6. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. *Restatement/Reclassifications*

Beginning fund balances have been restated for the General Fund and for the Fire Fund to correctly reflect the impact of implementing GASB 34. The fund statements are now presented using the modified accrual basis of accounting rather than the cash basis of accounting which was utilized in prior years.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on June 25, 2003, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures. The Township Board did not adopt budgets for the Municipal Street Fund and the Liquor Law Enforcement Fund.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Funds with Expenditures in Excess of Appropriations were as follows:

| | <u>APPROPRIATIONS</u> | <u>EXPENDITURES</u> |
|-----------------|-----------------------|---------------------|
| General Fund | | |
| Township Board | \$ 3,263 | \$ 14,063 |
| Assessor | 7,293 | 9,145 |
| Clerk | 4,000 | 4,120 |
| Board of Review | 300 | 873 |
| Treasurer | 7,375 | 8,177 |
| Cemetery | 4,365 | 4,475 |
| Fire Fund | 35,750 | 85,818 |

These overages were funded by greater than anticipated revenues and available fund balance.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

The Township's deposits are owned by several of the Township's funds. All bank deposits are in Lake Osceola State Bank. At year-end, the carrying amount of the Township's deposits was \$74,663 and the bank balance was \$76,893. The Township's deposits were entirely covered by Federal depository insurance.

DEPOSITS

The carrying amount of the Township's deposits at year-end are shown below:

| | |
|-----------------------------------|------------------|
| Lake Osceola State Bank | |
| Baldwin, Michigan | |
| Checking | \$ 7,630 |
| Savings and Money Market Accounts | 54,897 |
| Certificates of Deposit | <u>12,136</u> |
| | \$ <u>74,663</u> |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

A reconciliation of cash follows:

| | |
|---|------------------|
| Carrying Amount of Deposit | \$ 74,663 |
| Government-wide Statement of Net Assets | |
| Cash | \$ 73,750 |
| Statement of Fiduciary Net Assets | 913 |
| | <u>\$ 74,663</u> |

B. Receivables

Receivables as of year end for the government's individual major funds are as follows:

| | General | Fire | Municipal Street | Liquor Law Enforcement | Total |
|-------------------|-----------------|-----------------|---------------------|------------------------------|-----------------|
| Receivables | | | | | |
| Intergovernmental | \$ 3,874 | \$ 4,151 | \$ 0 | \$ 0 | \$ 8,025 |
| Accounts | 913 | 0 | 0 | 0 | 913 |
| | <u>\$ 4,787</u> | <u>\$ 4,151</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 8,938</u> |

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.

C. Capital Assets

Primary Government

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|------------------|-------------|-------------------|
| <u>Governmental activities:</u> | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 400 | \$ 0 | \$ 0 | \$ 400 |
| Capital assets, being depreciated | | | | |
| Buildings | \$ 41,100 | \$ 0 | \$ 0 | \$ 41,100 |
| Machinery and equipment | 97,636 | 45,820 | 0 | 143,456 |
| Total capital assets, being depreciated | <u>\$ 138,736</u> | <u>\$ 45,820</u> | <u>\$ 0</u> | <u>\$ 184,556</u> |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Less accumulated depreciation for:

| | | | | | | | | |
|--|----|--------|----|--------|----|---|----|--------|
| Buildings | \$ | 41,100 | \$ | 0 | \$ | 0 | \$ | 41,100 |
| Machinery and equipment | | 51,612 | | 5,535 | | 0 | | 57,147 |
| Total accumulated depreciation | \$ | 92,712 | \$ | 5,535 | \$ | 0 | \$ | 98,247 |
| Total capital assets, being depreciated, net | \$ | 46,024 | \$ | 40,285 | \$ | 0 | \$ | 86,309 |
| Governmental activities capital assets, net | \$ | 46,424 | \$ | 40,285 | \$ | 0 | \$ | 86,709 |

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

| | | |
|---------------|----|--------------|
| Public Safety | \$ | <u>5,535</u> |
|---------------|----|--------------|

Construction Commitments:

The government has no outstanding construction commitments as of June 30, 2004.

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at June 30, 2004, were:

| <u>FUND</u> | <u>INTERFUND RECEIVABLES</u> | <u>INTERFUND PAYABLES</u> |
|-----------------------------|----------------------------------|-------------------------------|
| General Fund | \$ 7,921 | \$ 0 |
| Special Revenue Funds | | |
| Fire Fund | 0 | 1,555 |
| Municipal Street Fund | 0 | 5,453 |
| Fiduciary Funds | | |
| Current Tax Collection Fund | 0 | 913 |
| | <u>\$ 7,921</u> | <u>\$ 7,921</u> |

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

No interfund transfers occurred during the fiscal year ended June 30, 2004.

Transfers are used (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-Term Debt

The following is a summary of the long-term debt transactions of the Township of South Branch for the year ended June 30, 2004:

| | <u>NOTES PAYABLE</u> |
|----------------------------|--------------------------|
| Long -Term Debt Payable | |
| At July 1, 2003 | \$ 25,216 |
| New Debt Incurred | |
| Payments on Debt | <u>(3,768)</u> |
| LONG-TERM DEBT PAYABLE | |
| AT JUNE 30, 2004 | <u>\$ 21,448</u> |

Debt payable at June 30, 2004 consisted of the following:

Notes Payable:

| | |
|---|------------------|
| \$33,827 note payable, Due in Annual Installments of \$4,866 through August 31, 2008; interest at 4.352% | <u>\$ 21,448</u> |
|---|------------------|

The annual requirements to amortize debt outstanding as of June 30, 2004 are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Amounts Payable</u> |
|-----------------------------|----------------------|---------------------|----------------------------|
| 2005 | \$ 3,932 | \$ 934 | \$ 4,866 |
| 2006 | 4,104 | 762 | 4,866 |
| 2007 | 4,282 | 584 | 4,866 |
| 2008 | 4,468 | 398 | 4,866 |
| 2009 | <u>4,662</u> | <u>204</u> | <u>4,866</u> |
| | <u>\$ 21,448</u> | <u>\$ 2,882</u> | <u>\$ 24,330</u> |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

F. Fund Balance Reserves and Designations

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances in various funds. In addition, certain portions of unreserved fund balances have been designated for intended future uses. These reserves and designations are detailed in the following schedule:

FUND BALANCE/NET ASSETS

Reserved

General Fund

Right-of-Way \$ 2,318

Special Revenue Funds

Fire Fund

Fire Protection \$ 11,948

Municipal Street Fund

Road Improvements 481 12,429

TOTAL FUND BALANCE

RESERVES AND DESIGNATIONS \$ 14,747

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions insurance and workers' compensation. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

B. Jointly Governed Organization

South Branch Township and Henderson Township have entered into an agreement to create a joint cemetery board. The cemetery's board consists of the full board of both townships. All of the financial operations of the cemetery are recorded in the General Fund of South Branch Township. Both townships share equally in costs of operations as Henderson Township reimburses South Branch for 50% of cost incurred.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2004

| | GENERAL FUND | | | | FIRE FUND | | | |
|--|--------------------|-----------------|------------|----------------------------------|--------------------|-----------------|------------|----------------------------------|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| <u>REVENUES</u> | | | | | | | | |
| Taxes | \$ 12,968 | \$ 12,968 | \$ 18,018 | \$ 5,050 | \$ 28,736 | \$ 28,736 | \$ 26,645 | \$ (2,091) |
| Federal Grants | 0 | 0 | 0 | 0 | 4,000 | 4,000 | 49,851 | 45,851 |
| State Grants | 19,500 | 19,500 | 26,117 | 6,617 | 0 | 0 | 2,100 | 2,100 |
| Contributions from Local Units | 1,432 | 1,432 | 987 | (445) | 0 | 0 | 0 | 0 |
| Charges for Services | 3,886 | 3,886 | 7,946 | 4,060 | 0 | 0 | 0 | 0 |
| Interest and Rents | 900 | 900 | 673 | (227) | 200 | 200 | 31 | (169) |
| Other Revenues | 5,907 | 5,907 | 1,763 | (4,144) | 0 | 0 | 2,000 | 2,000 |
| Total Revenues | \$ 44,593 | \$ 44,593 | \$ 55,504 | \$ 10,911 | \$ 32,936 | \$ 32,936 | \$ 80,627 | \$ 47,691 |
| <u>EXPENDITURES</u> | | | | | | | | |
| Legislative | \$ 3,263 | \$ 3,263 | \$ 14,036 | \$ (10,773) | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| General Government | 37,633 | 37,633 | 33,257 | 4,376 | 0 | 0 | 0 | 0 |
| Public Safety | 2,600 | 2,600 | 2,223 | 377 | 30,185 | 30,185 | 80,952 | (50,767) |
| Public Works | 1,800 | 1,800 | 1,480 | 320 | 0 | 0 | 0 | 0 |
| Other Functions | 8,900 | 8,900 | 6,305 | 2,595 | 0 | 0 | 0 | 0 |
| Capital Outlay | 200 | 200 | 0 | 200 | 0 | 0 | 0 | 0 |
| Debt Service | 0 | 0 | 0 | 0 | 4,965 | 4,965 | 4,866 | 99 |
| Contingency | 500 | 500 | 0 | 500 | 600 | 600 | 0 | 600 |
| Total Expenditures | \$ 54,896 | \$ 54,896 | \$ 57,301 | \$ (2,405) | \$ 35,750 | \$ 35,750 | \$ 85,818 | \$ (50,068) |
| Excess (Deficiency) of Revenues Over Expenditures | \$ (10,303) | \$ (10,303) | \$ (1,797) | \$ 8,506 | \$ (2,814) | \$ (2,814) | \$ (5,191) | \$ (2,377) |
| <u>FUND BALANCE - Beginning of Year</u> | 48,717 | 48,717 | 61,915 | 13,198 | 18,589 | 18,589 | 17,139 | (1,450) |
| <u>FUND BALANCE - End of Year</u> | \$ 38,414 | \$ 38,414 | \$ 60,118 | \$ 21,704 | \$ 15,775 | \$ 15,775 | \$ 11,948 | \$ (3,827) |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GENERAL FUND

BALANCE SHEET
JUNE 30, 2004

ASSETS

| | |
|----------------------------|-----------|
| Cash | |
| Checking | \$ 6,717 |
| Money Market Account | 39,611 |
| Certificate of Deposit | 12,136 |
| Due from Other Funds | 7,921 |
| Due from Other Governments | 3,874 |
| | <hr/> |
| TOTAL ASSETS | \$ 70,259 |
| | <hr/> |

LIABILITIES AND FUND BALANCE

LIABILITIES

| | |
|-----------------------|----------|
| Accounts Payable | \$ 1,388 |
| Payroll Taxes Payable | 8,753 |
| | <hr/> |

| | |
|-------------------|-----------|
| Total Liabilities | \$ 10,141 |
| | <hr/> |

FUND BALANCE

| | |
|---------------------------------------|----------|
| Reserved for Right-of-Way Maintenance | \$ 2,318 |
| Unreserved | 57,800 |
| | <hr/> |

| | |
|--------------------|--------|
| Total Fund Balance | 60,118 |
| | <hr/> |

| | |
|------------------------------------|-----------|
| TOTAL LIABILITIES AND FUND BALANCE | \$ 70,259 |
| | <hr/> |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2004

| | <u>BUDGET</u> | | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--------------------------------|-----------------|--------------|---------------|--|
| | <u>ORIGINAL</u> | <u>FINAL</u> | | <u>FAVORABLE</u> <u>(UNFAVORABLE)</u> |
| <u>REVENUES</u> | | | | |
| Taxes | \$ 12,968 | \$ 12,968 | \$ 18,018 | \$ 5,050 |
| State Grants | 19,500 | 19,500 | 26,117 | 6,617 |
| Contributions from Local Units | 1,432 | 1,432 | 987 | (445) |
| Charges for Services | 3,886 | 3,886 | 7,946 | 4,060 |
| Interest and Rents | 900 | 900 | 673 | (227) |
| Other Revenues | 5,907 | 5,907 | 1,763 | (4,144) |
| Total Revenues | \$ 44,593 | \$ 44,593 | \$ 55,504 | \$ 10,911 |
| <u>EXPENDITURES</u> | | | | |
| Legislative | | | | |
| Township Board | \$ 3,263 | \$ 3,263 | \$ 14,036 | \$ (10,773) |
| General Government | | | | |
| Supervisor | 3,800 | 3,800 | 3,779 | 21 |
| Election | 800 | 800 | 43 | 757 |
| Assessor | 7,293 | 7,293 | 9,145 | (1,852) |
| Clerk | 4,000 | 4,000 | 4,120 | (120) |
| Board of Review | 300 | 300 | 873 | (573) |
| Treasurer | 7,375 | 7,375 | 8,177 | (802) |
| Building and Grounds | 9,700 | 9,700 | 2,645 | 7,055 |
| Cemetery | 4,365 | 4,365 | 4,475 | (110) |
| Public Safety | 2,600 | 2,600 | 2,223 | 377 |
| Public Works | 1,800 | 1,800 | 1,480 | 320 |
| Other Functions | 8,900 | 8,900 | 6,305 | 2,595 |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2004

| | <u>BUDGET</u> | | <u>ACTUAL</u> | <u>VARIANCE</u> |
|---|-----------------|--------------|---------------|--|
| | <u>ORIGINAL</u> | <u>FINAL</u> | | <u>FAVORABLE</u> <u>(UNFAVORABLE)</u> |
| Capital Outlay | 200 | 200 | 0 | 200 |
| Contingency | 500 | 500 | 0 | 500 |
| Total Expenditures | \$ 54,896 | \$ 54,896 | \$ 57,301 | \$ (2,405) |
| Excess of Revenues | | | | |
| Over (Under) Expenditures | \$ (10,303) | \$ (10,303) | \$ (1,797) | \$ 8,506 |
| <u>FUND BALANCE</u> - Beginning of Year | 48,717 | 48,717 | 61,915 | 13,198 |
| <u>FUND BALANCE</u> - End of Year | \$ 38,414 | \$ 38,414 | \$ 60,118 | \$ 21,704 |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GENERAL FUND

ANALYSIS OF REVENUES
FOR THE YEAR ENDED JUNE 30, 2004

TAXES

| | | |
|---------------------------------|-----------|-----------|
| Current Property Taxes | \$ 12,375 | |
| Commercial Forest | 297 | |
| Property Tax Administration Fee | 5,346 | |
| Total Taxes | | \$ 18,018 |

STATE GRANTS

| | | |
|---|--------|--------|
| Telecommunications Right of Way Maintenance | 2,318 | |
| Sales and Use Tax | 23,799 | |
| Total State Grants | | 26,117 |

CONTRIBUTIONS FROM LOCAL UNITS

| | | |
|--------------------|--|-----|
| Henderson Township | | 987 |
|--------------------|--|-----|

CHARGES FOR SERVICES

| | | |
|----------------------------|-------|-------|
| Summer Tax Collection | 4,171 | |
| Burial Fees | 3,775 | |
| Total Charges for Services | | 7,946 |

INTEREST AND RENTS

| | | |
|--------------------------|-----|-----|
| Interest Earnings | 598 | |
| Hall Rental | 75 | |
| Total Interest and Rents | | 673 |

OTHER REVENUES

| | | |
|----------------|--|-----------|
| Miscellaneous | | 1,763 |
| TOTAL REVENUES | | \$ 55,504 |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

LEGISLATIVE

Township Board

Personal Services

Salaries and Wages \$ 1,536

Salaries and Wages - Per Diem 72

Supplies

Office Supplies 625

Other Services and Charges

Audit 10,730

Miscellaneous 1,073

Total Legislative \$ 14,036

GENERAL GOVERNMENT

Supervisor

Personal Services

Salaries and Wages \$ 3,700

Salaries and Wages - Per Diem 51

Supplies

Office Supplies 28

Total Supervisor 3,779

Elections

Personal Services

Salaries and Wages 43

Assessor

Personal Services

Salaries and Wages 6,687

Supplies

Office Supplies 2,458

Total Assessor 9,145

Clerk

Personal Services

Salaries and Wages 3,700

Salaries and Wages - Per Diem 106

Supplies

Office Supplies 314

Total Clerk 4,120

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

| | | | |
|-------------------------------|-------|-------|--------|
| Board of Review | | | |
| Personal Services | | | |
| Salaries and Wages | 505 | | |
| Supplies | | | |
| Office Supplies | 368 | | |
| Total Board of Review | | 873 | |
| Treasurer | | | |
| Personal Services | | | |
| Salaries and Wages | 5,617 | | |
| Salaries and Wages - Per Diem | 22 | | |
| Supplies | | | |
| Office Supplies | 85 | | |
| Other Services and Charges | | | |
| Tax Collecting Expense | 2,453 | | |
| Total Treasurer | | 8,177 | |
| Building and Grounds | | | |
| Supplies | | | |
| Operating Supplies | 50 | | |
| Other Services and Charges | | | |
| Repairs and Maintenance | 637 | | |
| Public Utilities | 1,958 | | |
| Total Building and Grounds | | 2,645 | |
| Cemetery | | | |
| Personal Services | | | |
| Salaries and Wages | 3,962 | | |
| Supplies | | | |
| Operating Supplies | 284 | | |
| Other Services and Charges | | | |
| Public Utilities | 229 | | |
| Total Cemetery | | 4,475 | |
| Total General Government | | | 33,257 |
| <u>PUBLIC SAFETY</u> | | | |
| Crime Patrol | | | |
| Other Services and Charges | | | |
| Contracted Services | | | 2,223 |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

PUBLIC WORKS

Refuse Collection

Other Services and Charges

Contracted Services

1,480

OTHER FUNCTIONS

Insurance and Bonds

3,164

Employee Benefits

Medicare and Social Security

1,821

Worker's Compensation

1,320

Total Employee Benefits

3,141

Total Other Functions

6,305

TOTAL EXPENDITURES

\$ 57,301

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

FIRE FUND

BALANCE SHEET
JUNE 30, 2004

ASSETS

| | |
|----------------------------|-----------------------------|
| Cash | |
| Money Market Account | \$ 9,352 |
| Due from Other Governments | <u>4,151</u> |
| TOTAL ASSETS | <u><u>\$ 13,503</u></u> |

LIABILITIES AND FUND BALANCE

LIABILITIES

| | |
|--------------------|----------|
| Due to Other Funds | \$ 1,555 |
|--------------------|----------|

FUND BALANCE

| | |
|------------------------------|---------------|
| Reserved for Fire Protection | <u>11,948</u> |
|------------------------------|---------------|

| | |
|--|-----------------------------|
| TOTAL LIABILITIES AND FUND BALANCE | <u><u>\$ 13,503</u></u> |
|--|-----------------------------|

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

FIRE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2004

| | <u>BUDGET</u> | | <u>ACTUAL</u> | <u>VARIANCE FAVORABLE (UNFAVORABLE)</u> |
|----------------------------|------------------|------------------|------------------|---|
| | <u>ORIGINAL</u> | <u>FINAL</u> | | |
| <u>REVENUES</u> | | | | |
| Taxes | | | | |
| Current Property Taxes | \$ 28,736 | \$ 28,736 | \$ 26,645 | \$ (2,091) |
| Federal Sources | | | | |
| FEMA Grant | 4,000 | 4,000 | 49,851 | 45,851 |
| State Sources | | | | |
| DNR Grant | 0 | 0 | 2,100 | 2,100 |
| Interest and Rents | | | | |
| Interest Earnings | 200 | 200 | 31 | (169) |
| Other Revenues | | | | |
| Miscellaneous | 0 | 0 | 2,000 | 2,000 |
| Total Revenues | <u>\$ 32,936</u> | <u>\$ 32,936</u> | <u>\$ 80,627</u> | <u>\$ 47,691</u> |
| <u>EXPENDITURES</u> | | | | |
| Public Safety | | | | |
| Personal Services | | | | |
| Salaries and Wages | | | | |
| Fire Chief | \$ 3,000 | \$ 3,000 | \$ 3,000 | \$ 0 |
| Per Diem | 0 | 0 | 743 | (743) |
| Supplies | | | | |
| Operating Supplies | 700 | 700 | 4,234 | (3,534) |
| Other Services and Charges | | | | |
| Audit | 0 | 0 | 2,000 | (2,000) |
| Repair and Maintenance | 4,700 | 4,700 | 1,202 | 3,498 |
| Public Utilities | 4,850 | 4,850 | 3,603 | 1,247 |
| Travel and Education | 2,000 | 2,000 | 2,012 | (12) |
| Miscellaneous | 600 | 600 | 0 | 600 |
| Capital Outlay | 8,835 | 8,835 | 58,507 | (49,672) |
| Other Functions | | | | |
| Insurance | 5,500 | 5,500 | 5,365 | 135 |
| Employee Benefits | 0 | 0 | 286 | (286) |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

FIRE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2004

| | <u>BUDGET</u> | | <u>ACTUAL</u> | <u>VARIANCE FAVORABLE (UNFAVORABLE)</u> |
|---|-------------------|-------------------|-------------------|---|
| | <u>ORIGINAL</u> | <u>FINAL</u> | | |
| Debt Service | | | | |
| Principal | 4,965 | 4,965 | 3,768 | 1,197 |
| Interest | 0 | 0 | 1,098 | (1,098) |
| Contingency | 600 | 600 | 0 | 600 |
| Total Expenditures | <u>\$ 35,750</u> | <u>\$ 35,750</u> | <u>\$ 85,818</u> | <u>\$ (50,068)</u> |
| Excess of Revenues | | | | |
| Over (Under) Expenditures | <u>\$ (2,814)</u> | <u>\$ (2,814)</u> | <u>\$ (5,191)</u> | <u>\$ (2,377)</u> |
| <u>FUND BALANCE - Beginning of Year</u> | <u>18,589</u> | <u>18,589</u> | <u>17,139</u> | <u>(1,450)</u> |
| <u>FUND BALANCE - End of Year</u> | <u>\$ 15,775</u> | <u>\$ 15,775</u> | <u>\$ 11,948</u> | <u>\$ (3,827)</u> |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MUNICIPAL STREET FUND

BALANCE SHEET
JUNE 30, 2004

ASSETS

| | |
|----------------------|----------------|
| Cash | |
| Money Market Account | \$ 5,934 |

LIABILITIES AND FUND BALANCE

LIABILITIES

| | |
|--------------------|----------------|
| Due to Other Funds | \$ 5,453 |
|--------------------|----------------|

FUND BALANCE

| | |
|--------------------------------|-----|
| Reserved for Road Improvements | 481 |
|--------------------------------|-----|

| | |
|------------------------------------|----------------|
| TOTAL LIABILITIES AND FUND BALANCE | \$ 5,934 |
|------------------------------------|----------------|

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MUNICIPAL STREET FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDING JUNE 30, 2004

REVENUES

Taxes

| | |
|------------------------|----------|
| Current Property Taxes | \$ 2,967 |
|------------------------|----------|

EXPENDITURES

Public Works

| | |
|-------------------------------|----------|
| Highways, Streets and Bridges | <u>0</u> |
|-------------------------------|----------|

Excess of Revenues

| | |
|---------------------------|----------|
| Over (Under) Expenditures | \$ 2,967 |
|---------------------------|----------|

| | |
|---|----------------|
| <u>FUND BALANCE</u> - Beginning of Year (Deficit) | <u>(2,486)</u> |
|---|----------------|

| | |
|-----------------------------------|----------------------|
| <u>FUND BALANCE</u> - End of Year | <u><u>\$ 481</u></u> |
|-----------------------------------|----------------------|

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

LIQUOR LAW ENFORCEMENT FUND

BALANCE SHEET
JUNE 30, 2004

ASSETS

Cash

Money Market Account

\$ 0

LIABILITIES AND FUND BALANCE

LIABILITIES

\$ 0

FUND BALANCE

Reserved for Liquor Law Enforcement

0

TOTAL LIABILITIES AND FUND BALANCE

\$ 0

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

LIQUOR LAW ENFORCEMENT FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED JUNE 30, 2004

REVENUES

| | |
|-----------------|----------|
| State Grants | |
| Liquor Licenses | \$ 1,483 |

EXPENDITURES

| | |
|----------------------------|--------------|
| Public Safety | |
| Protective Inspection | |
| Other Services and Charges | |
| Contracted Services | <u>1,483</u> |

| | |
|-------------------------|---|
| Excess of Revenues Over | |
| (Under) Expenditures | 0 |

| | |
|---|----------|
| <u>FUND BALANCE</u> - Beginning of Year | <u>0</u> |
|---|----------|

| | |
|-----------------------------------|--------------------|
| <u>FUND BALANCE</u> - End of Year | <u><u>\$ 0</u></u> |
|-----------------------------------|--------------------|

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2004

| | BALANCE 7/1/2003 | ADDITIONS | DEDUCTIONS | BALANCE 6/30/2004 |
|--|---------------------|------------|------------|----------------------|
| <u>CURRENT TAX COLLECTION FUND</u> | | | | |
| <u>ASSETS</u> | | | | |
| Cash | \$ 4,866 | \$ 516,337 | \$ 520,290 | \$ 913 |
| <u>LIABILITIES</u> | | | | |
| Due to Other Funds | \$ 4,866 | \$ 47,142 | \$ 51,095 | \$ 913 |
| Due to Other Organizations and Individuals | 0 | 1,672 | 1,672 | 0 |
| Due to Other Governments | 0 | 467,523 | 467,523 | 0 |
| Total Liabilities | \$ 4,866 | \$ 516,337 | \$ 520,290 | \$ 913 |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN
STATEMENT OF 2003 TAX ROLL
JUNE 30, 2004

TAXES ASSESSED

| | | |
|------------------------------|------------|---------|
| County | \$ 138,826 | |
| County - State Education Tax | 68,285 | |
| Township | | |
| Operating | 12,375 | |
| Roads | 2,967 | |
| Fire Protection | 26,677 | |
| Schools | | |
| Cadillac Area Public Schools | 206,826 | |
| Mesick Consolidated Schools | 738 | |
| Intermediate School | | |
| Wexford-Missaukee | 81,944 | 538,638 |

TAXES COLLECTED

| | | |
|------------------------------|---------|---------|
| County | 129,148 | |
| County - State Education Tax | 65,378 | |
| Township | | |
| Operating | 11,513 | |
| Roads | 2,472 | |
| Fire Protection | 24,817 | |
| Schools | | |
| Cadillac Area Public Schools | 195,355 | |
| Mesick Consolidated Schools | 738 | |
| Intermediate School | | |
| Wexford-Missaukee | 76,231 | 505,652 |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN
STATEMENT OF 2003 TAX ROLL
JUNE 30, 2004

TAXES RETURNED DELINQUENT

| | | |
|------------------------------|--------------|------------------|
| County | 9,678 | |
| County - State Education Tax | 2,907 | |
| Township | | |
| Operating | 862 | |
| Roads | 495 | |
| Fire Protection | 1,860 | |
| Schools | | |
| Cadillac Area Public Schools | 11,471 | |
| Mesick Consolidated Schools | 0 | |
| Intermediate School | | |
| Wexford-Missaukee | <u>5,713</u> | <u>\$ 32,986</u> |

134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

Baird, Cotter and Bishop, P.C.

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

CERTIFIED PUBLIC ACCOUNTANTS

January 13, 2005

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board
South Branch Township
Wexford County
Cadillac, Michigan

During the course of our audit of the basic financial statements of South Branch Township for the year ended June 30, 2004, we noted the following:

GASB 34

These financial statements are reported under the new GASB 34 accounting standard and are much different than in the past. We recommend the Township carefully review these statements under the new accounting standard. We are available to explain the various changes in detail if so desired.

Budgeting

The township had not formally adopted separate budgets for the Municipal Street Fund and the Liquor Law Enforcement Fund. State law requires that this be done prior to expending any money in these funds.

Expenditures in various functions of the General Fund, as well as, the General Fund as a whole and the Fire Fund exceeded appropriations. The Township Board is also responsible for amending the budget during the year to allow for expenditures in excess of original appropriations, or to reduce appropriations, if it appears the actual expenditures will be much less than originally appropriated.

The adoption of the budgets for each fund should be clearly noted in the board minutes, as well as any amendments to the budget throughout the year.

Reconciliations of Clerk and Treasurer Ledgers

We recommend that the Treasurer and Clerk reconcile their receipts, expenditures, and bank balances to each others records on a monthly basis. This will facilitate a continuous balancing of records and help strengthen internal controls. Currently, this is not being done as required by the Michigan Department of Treasury.

Computerized Accounting

We commend the Township for utilizing a computerized accounting program for maintaining the Township's financial records. However, we do have some suggestions for increased efficiency and accuracy:

1. Currently, all funds are included in one company in the Peachtree accounting software. Each fund should be set up in a separate company with a balancing chart of accounts.
2. During the audit, we noticed various accounts that were labeled incorrectly. All accounts should be reviewed and properly classified as assets, liabilities, income and expenditures. Improper labeling will alter the accuracy of the information that is carried into the following fiscal year.
3. Receipts should be entered via the cash receipts journal rather than a journal entry. More detailed information will be able to be entered which will allow increased tracking ability and usefulness of the general ledger.
4. Bank reconciliations can easily be done within the Peachtree accounting software. Currently bank reconciliations are not done within Peachtree. The general ledger bank balances did not match the hand ledgers done by the Treasurer. These hand ledgers, however, did not always reconcile with the bank statements either. Also, transfers between bank accounts were not necessarily recorded within the general ledger.
5. Thorough and complete utilization of the computerized accounting program will assist the Township in providing a complete and accurate representation of the Township's financial position.

Receipts

We found various instances where receipts were used out-of sequence and also used for transfers of money from one bank account to another. The receipts also lacked account classifications and method of payment. Various receipts were also found to include items received from multiple payors with little description detailing what was received.

Receipts are the official document used by the local unit to record all revenue received. The Uniform Accounting Procedures Manual issued by the Michigan Department of Treasury states that receipts are to be written sequentially, indicate method of payment, and provide immediate revenue classification in conformance with the Uniform Chart of Accounts.

Disbursements

The Township's disbursements do not necessarily contain administrative approval and account classifications. Each invoice should be approved with the proper account classification listed in conformance with the Uniform Chart of Accounts.

Payroll

Federal 941 deposits are not being deposited on a timely basis. At year end, a large amount of prior quarter deposits still had not been processed resulting in a large payroll withholdings payable. We have corresponded with the Internal Revenue Service and found that significant deficiencies exist with 941 reporting and we will assist the Township in becoming compliant with IRS regulations. Also, it does not look like payroll withholdings and expense liabilities are consistently being adjusted through a liability account.

Software

It has come to the attention of the Township Board that their accounting software is not properly registered in the Township's name. The Board is taking steps to correct this issue.

Investment Policy

As of June 30, 2004, the Township has not adopted an investment policy that includes the types of investments that the Township is authorized to invest in. In accordance with Public Act 196 of 1997, the Township is required to adopt an investment policy, and has done so as of January 2005.

We would like to thank the board for its confidence in our firm and to thank the township clerk and treasurer for their cooperation.

If you have any questions relative to the above items or other areas of your annual accounting, please feel free to call on us.

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JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
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CERTIFIED PUBLIC ACCOUNTANTS

January 13, 2005

LETTER OF REPORTABLE CONDITIONS

To the Township Board
South Branch Township
Wexford County
Cadillac, Michigan

In planning and performing our audit of the financial statements of South Branch Township, Wexford County, Cadillac, Michigan for the year ended June 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

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